

An Unconditional Basis Income (UBI): Unfair Equality?

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What is a UBI?

(Unconditional Basic Income)

Everyone above 18 years receives a net income transfer of € 972 per month (€11.670 per year) equivalent to the social minimum benefit in the Netherlands.

'Unconditional' means:

- **Without regard of other incomes**
- **Without regard of private property**
- **Without a duty to apply for jobs (or any other obligation)**
- **Tax free**

What is not a UBI?

UBI should not be confused with experiments for simplified rules around social (minimum) benefits in various Dutch cities.

N.B. Minimum social benefits ('bijstand') is a conditional basic income!

**This presentation is solely about an Unconditional Basic Income: UBI
(€ 972 for everyone above 18 years)**

Two versions of a UBI:

Version 1:

You receive € 972 as a government transfer on your bank account.

Version 2:

Your employer receives € 972 as a wage subsidy; if you are fired, you take along those € 972 as your basic income.

In Version 2, employers pay extra taxes, e.g. on Value Added or on raw materials consumption

Three different visions of society:

Vision 1 – The welfare state view:

Everyone has a prime responsibility for earning her own income. In adverse circumstances, government will help you. In exchange, government may impose 'fair' rules (e.g. active job search)

Vision 2 – The libertarian (anarchistic) view:

Each individual is fully responsible for her live. If you do not succeed it's bad luck. Fortunately there is still the Caritas!

Vision 3 – The UBI view:

Society is responsible for each one having a minimum amount of money for basic needs, without imposing any conditions

What is behind these three visions?

Classical welfare state:

The believe that markets (and people) can fail. Trust in the regulating capacity of government.

Libertarian-anarchistic model:

Trust in well-functioning markets and in individuals making rational choices; aversion against governments and bureaucracies

UBI model:

An intermediate position between Vision 1 and 2: libertarian-anarchistic elements ('individual autonomy'; aversion against bureaucracies; etc.), but a 'social' attitude: everyone is entitled receiving a minimum income

Arguments in favor of a UBI:

- a) Pessimism about future employment prospects (fear of technological unemployment due to robots)**
- b) Persistent unemployment among certain problem groups**
- c) Individual 'autonomy': you are free doing things outside an employment relationship, e.g. studies, caring**
- d) Stronger bargaining position of labor against employers**
- e) Equal treatment (everyone gets the same amount)**
- f) Radical simplification of social security (low overhead)**
- g) Too high wage costs (threat of globalization!)**

Evaluating the arguments in favor of UBI:

a) High unemployment through automation?

Counter argument:

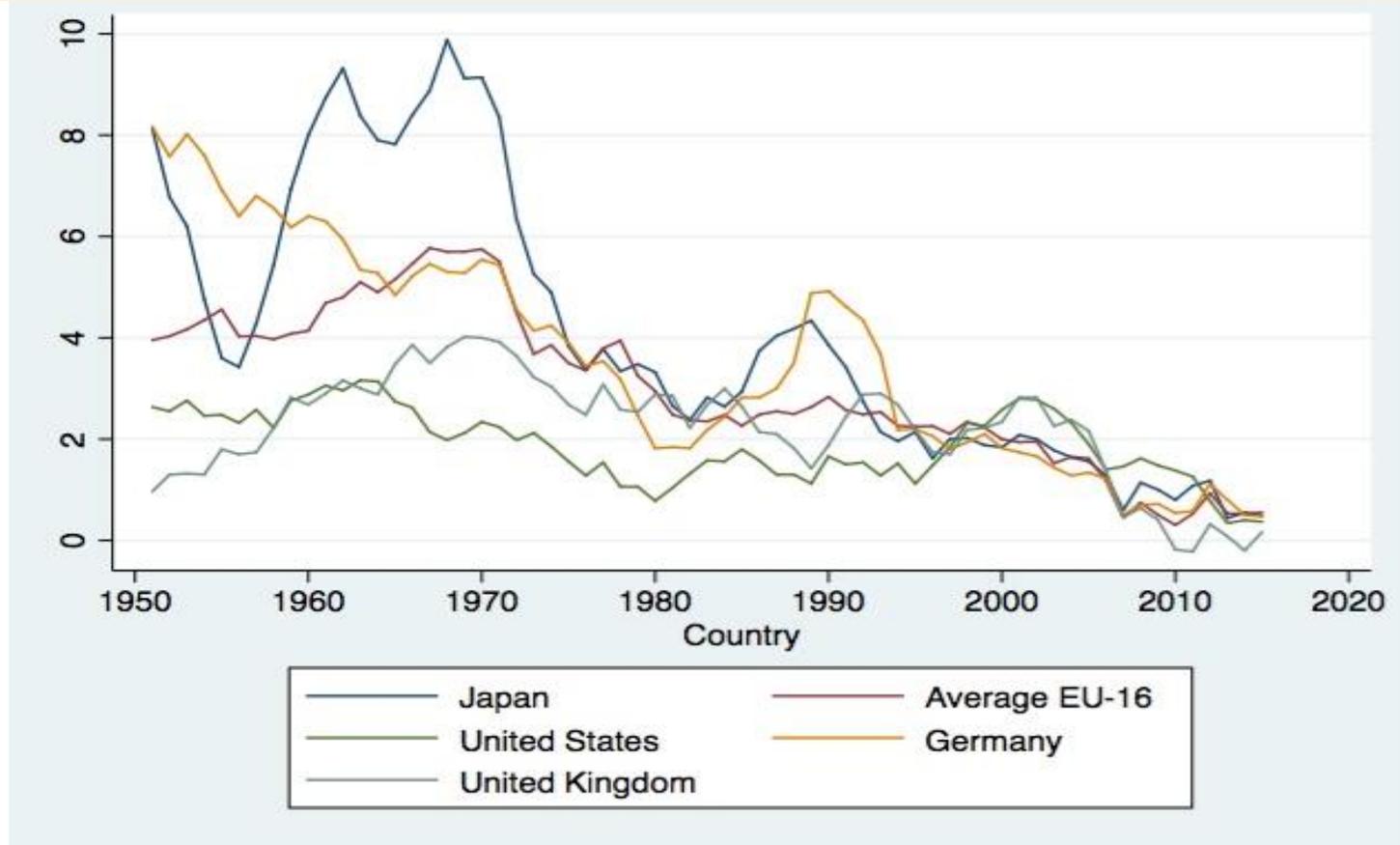
Is there indeed a productivity revolution thanks to IT? (A *Second Machine Age*?)

Growth rates of labor productivity (and of Total Factor Productivity) have since 1945 not been as low as in the last 10 years

(next sheet)

Growth of labor productivity (Value added per hour worked) in various OECD countries

(Source: Groningen Growth and Development Centre, www.ggdc.net/)



Evaluating the arguments in favor of UBI:

a) What does low growth of labor productivity mean?

N.B. An economy can grow in two ways:

1. Working more hours

2. Working more productive hours = more value added per labor hour = higher labor productivity (through new technology and organization)

If you fail using option 2, you need more of option 1:

We are heading for a period of fairly labor-intensive growth!

Problem:

Many jobs, but badly paid and precarious due to low productivity gains

Evaluating the arguments in favor of UBI:

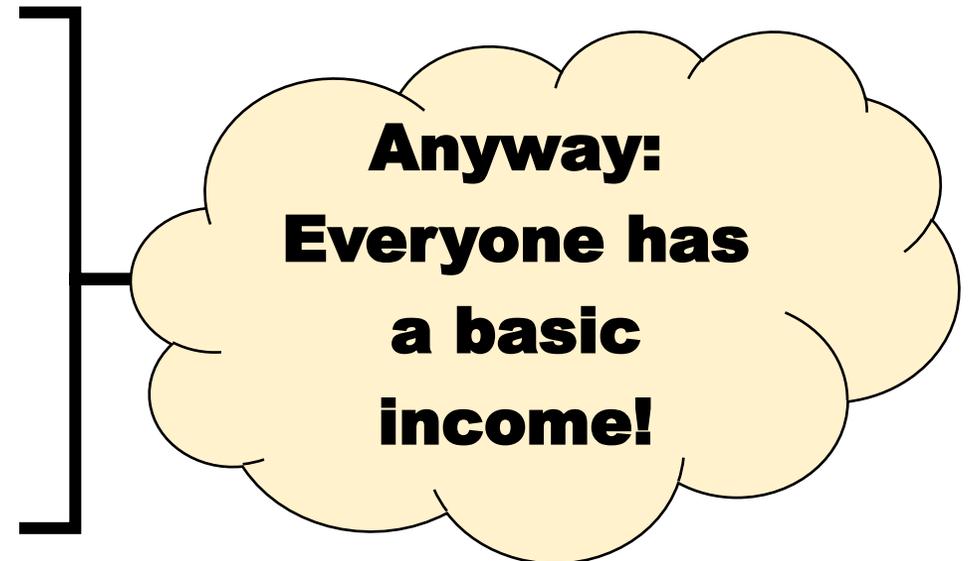
b) Persistent unemployment among certain groups

Counter argument: more specific measures may be more efficient than a generic solution such as the UBI!

Risk: UBI serves as an *afkoopregeling* :

- **Do not complain about social injustice, exclusion or labor market discrimination!**
- **Employers feel less moral pressure hiring handicapped people**
- **Government can stop training, re-integration, etc. for problem groups**

A UBI might enhance (rather than prevent) the social exclusion of weak people!



Evaluating the arguments in favor of UBI:

c) 'Individual autonomy'

Counter argument: in a society, you are never 'autonomous':

- **(The amount of) your UBI depends on political decision-making and social acceptance (the next cabinet could reduce/abolish your UBI!)**
- **Your UBI depends on other people's readiness to pay taxes. In the long run, government has no 'free' money!**
- **You still depend on others baking bread, clearing litter, building railways or caring for good drinking water!**

Evaluating the arguments in favor of UBI: c) 'Individual autonomy'

"Let us trust that UBI receivers will spontaneously do socially useful things" (Rutger Bregman)

**Be critical about the assumptions behind neo-classical theory!
(e.g. many people do not make rational choices)**

Counter argument:

What is 'socially useful' should be determined by society (parliaments) and not by individuals!

Trusting on spontaneous initiatives of individuals: Who can guarantee that helpless people will be helped (reliably)?

Evaluating the arguments in favor of UBI:

d) Stronger bargaining position of labor

Correct: if you can live from € 973 a month you do not need an employer. However, the bargaining position of higher income earners will improve only modestly.

Expectation (judging from CPB research):

Especially those on unattractive and low-pay jobs may withdraw from the labor market, among which: many women

UBI works as a subsidy for staying in the kitchen ... but:

Reduction of labor supply can lead to higher wages for low-paid workers!

Risk: Self-employed people who have little work can accept badly paid projects: UBI serves as a subsidy for their clients!

Evaluating the arguments in favor of UBI:

e) Equal treatment (everyone gets the same amount)

Counter argument:

Is it ethical, treating unequal people strictly equally??

N.B. Everybody gets the same amount: poor and rich, fit and handicapped, having children or not ...

Some UBI supporters want to abolish all means-tested social benefits in exchange for a UBI → but radical simplification of social security creates problems such as:

- **No more special support schemes for special cases (e.g. single parents)**
- **Permanent 24-hours care cannot be paid from a UBI of € 973 a month!**
- **Higher income earners experience a drastic income cut in case of (chronic) diseases or firing**

Evaluating the arguments in favor of UBI:

f): Radical simplification of social security; low overhead costs

Counter argument: Today's overhead costs for social security are not excessive (2 – 3 Billion)

Even with an OBI, the above-named problematic cases require tailor-made solutions ...

Evaluating the arguments in favor of UBI:

g) Too high wage costs (threat of globalization!)

Counter argument:

- **Capital incomes are high (Piketty!)**
- **The Netherlands (and the Eurozone) have giant export surpluses!**
- **Lower wage costs have a **negative** impact on labor productivity growth ... wage subsidization will reinforce the productivity crisis!**

N.B.: A one-per cent lower wage growth leads to an 0.4 % lower growth of labor productivity

Source: Vergeer, R. & A. Kleinknecht (2014): 'Does labor market deregulation reduce labor productivity growth? A panel data analysis of 20 OECD countries (1960-2004)', *International Labor Review*, 153(3), p. 365-393.

Another ethical problem behind the UBI

Can you help poor and 'less-useful' people by simply handing over money?

- **The money can also be used for subsidizing addictions (alcohol, drugs, games)!**
- **Do not underestimate the value of paid work:**
 - **For many people, work is not simply 'labour', just for earning money**
 - **Work determines your identity (social contact, esteem, self respect); it can give you social status and satisfaction**
 - **Work is an important means for social integration and cohesion!**

Estimating costs of a UBI for the Netherlands:

Total gross costs: 170 billion

12.563.000 people (>18 years) x 11.670 per year = 158 billion + 12 billion for lost tax revenues according to CPB estimate (for people who stop working)

Estimation of net costs (after deduction of social benefits that are replaced by UBI):

- **Estimate by the Dutch Association for a UBI ('Vereniging Basisinkomen'): € 104 billion per year**
- **Our estimate: € 107 billion**

Estimating costs of a UBI for the Netherlands (cont.):

N.B.: The total government budget in 2014 is around € 250 billion

Net costs of 104 (107) billion means:

Either raise tax revenues by 42 – 43% and/or make drastic budget cuts

The choice for tax increases implies: stronger incentives for (even more) tax evasion!

Note that losses from (extra) tax evasion are not included in the above estimates

Financing the UBI through Value-added taxes or raw materials taxes?

Problem:

**Raw materials-intensive industries have a strong lobby
(credible threat of moving production abroad)**

... except if all countries introduced a UBI and raw materials taxes

... but this will not happen – why?

Think of the **Prisoner's Dilemma: If most countries participate in the UBI exercise, it becomes extra interesting for a few countries not to follow as they can attract raw materials-intensive industries!**

Financing the UBI through Value-added taxes or raw materials taxes? (cont.)

Another problem:

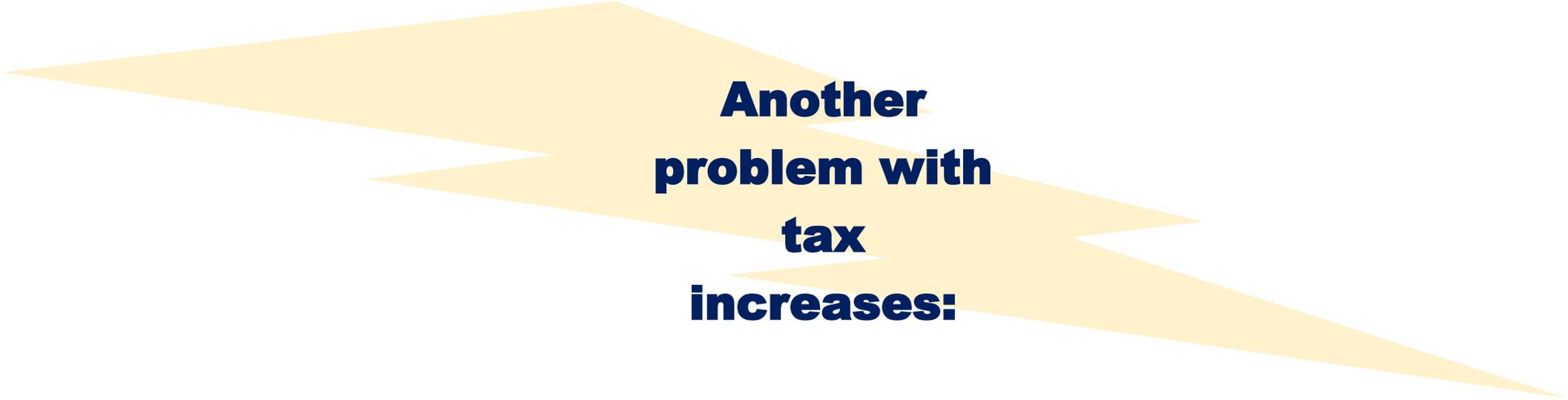
- **Value added taxes and taxes on raw materials are 'regressive' taxes (i.e. they hit the poor more than the rich!)**
- **Rich people and capital are more mobile than low income earners: There is a risk that most of the tax increases are born by the latter!**

**And this can
have risks hard
to assess**



Risks of tax increases:

- **Rebellion by low and middle income earners (anti-tax populism, e.g. 'Glistrup effect')?**
- **More black market activities? (being socially accepted ...?)**
- **Loss of tax revenues as low-paid (women) workers will (partially) withdraw from the labor market**
- **Declining tax revenues need to be compensated by higher tariffs: A vicious circle?**



**Another
problem with
tax
increases:**

Extra taxes on raw materials are ecologically desirable ...

... but they are not a solid base for financing a UBI in the long-run:

If they are ecologically successful (i.e. lower use of raw material) tax revenues will decline!

A negative impact on our tax morale?

A UBI is also given to:

- **Rich people who do not need it**
- **People who can but do not wish to work: By the end of 2014 the Netherlands had about 1,6 million people at working age who did not work, did not participate in educational activities and who did not search for work (probably living from property, income of a partner or parents).**

Costs of UBI for this group: approximately € 18,7 billion.

Government transfers to people who do not need them will undermine our willingness to pay taxes!

UBI is not anti-cyclic

Assume that all means-tested social benefits are replaced by an UBI: In this case, UBI transfers are independent of the state of the business cycle:

Business cycle fluctuations will become more violent!

An alternative to UBI: Government as an 'employer of last resort'

Give long-run unemployed the right to claim a job at the minimum wage in the public sector.

Advantages:

- **People are no more locked-in in restrictive regulation of social benefit schemes; they are regular employees!**
- **Paying strictly the minimum wage gives an incentive to search a job in the market sector (which often pays above the minimum wage)**
- **Much volunteering work in the public sector can become paid work (reliable performance)**
- **Town councils are challenged to think creatively about useful projects to be done. After 40 years of neoliberalism, the public sector got so poor that this cannot be difficult!**

Political and financial feasibility of public sector jobs:

Government already pays the minimum social benefit (€ 11.670 per year).

Extra costs of bridging the gap towards a minimum wage are, on average, <8.000 Euro per person per year

**Assume that all 430.000 receivers of minimum social benefits would receive a job at the minimum wage, this would cause extra costs of:
 $430.000 \times 8.000 = \text{€ } 3.44 \text{ billion} + \text{overhead costs.}$**

In other words, spending an extra amount of less than 1% of our National Income, we could have 430.000 people at work!

N.B.: Public sector jobs are easier to defend than a UBI: you spend money to have people at work, rather than distributing money without any obligation.